

**TOWN OF CHATHAM, MASSACHUSETTS**  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDING JUNE 30, 2011

**TOWN OF CHATHAM, MASSACHUSETTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDING JUNE 30, 2011**

**TABLE OF CONTENTS**

|  |     |
|--|-----|
| Independent Auditor's Report   | i   |
| Management's Discussion and Analysis   | iii |
| Basic Financial Statements   |     |
| <u>Government-wide Financial Statements</u>  |     |
| Statement of Net Assets  | 1   |
| Statement of Activities  | 2   |
| <u>Fund Financial Statements</u>   |     |
| Balance Sheet – Governmental Funds   | 3   |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds   | 4   |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to Statement of Activities | 5   |
| Statement of Net Assets – Proprietary Funds  | 6   |
| Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds   | 7   |
| Statement of Cash Flows – Proprietary Funds  | 8   |
| Statement of Net Assets – Fiduciary Funds  | 9   |
| Statement of Changes in Net Assets – Fiduciary funds   | 10  |
| Notes to Financial Statements  | 11  |
| <u>Required Supplementary Information</u>  |     |
| Schedule of Funding Progress – OPEB  | 35  |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis – General Fund – Budget and Actual               | 37  |
| Notes to Required Supplementary Information  | 38  |

### **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Board of Selectmen  
Town of Chatham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Massachusetts, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chatham, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Eldredge Public Library, Inc., which represent 100 percent of the assets, net assets and revenues of the discretely presented component unit. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eldredge Public Library, Inc., is based on the report of the other auditors. The financial statements of Eldredge Public Library, Inc. were not audited in accordance with *Government Auditing Standards*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Massachusetts as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012 on our consideration of Town of Chatham, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and the schedule of funding progress on the accompanying pages be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Malloy, Lynch, Bienvenue LLP*

March 19, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## TOWN OF CHATHAM, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2011

As management of the Town of Chatham, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider the information presented here in the Management Discussion and Analysis and the following accompanying pages.

#### **Overview of the Financial Statements**

The Town's financial statements present two types of statements – government wide statements and fund financial statements, each with a different view of the Town's finances. The government wide financial statements provide both long and short-term information about the Town as a whole. The fund financial statements focus on the individual parts of the Town government, reporting the Town's operations in more detail than the government wide statements. Both presentations (government wide and fund) allow the reader to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

#### **Government-Wide Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

*Statement of Net Assets:* The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, in order to assess the overall health of the Town.

*Statement of Activities:* The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes, or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

Both of the government wide financial statements distinguish functions and activities of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges. The governmental activities of the Town include the broad functions of general government, public safety, education, public works, health and human services, culture and recreation, and the major services provided within each functional category. The business-type activities include the water and wood waste reclamation activities.

The government-wide financial statements include not only the Town of Chatham itself (known as the primary government), but also Eldredge Public Library, Inc. for which the Town of Chatham is contributes a majority of their funding for their annual operations. Although Eldredge Public Library, Inc. is a legal separate entity, the library receives a significant portion of their annual operating budget from the Town of Chatham and therefore, is a discretely presented component unit of the Town. The financial information of Eldredge Public Library, Inc. is reported separately from the financial information presented for the primary government itself.

## TOWN OF CHATHAM, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2011

#### **Fund Financial Statements**

Traditional users of government financial statements will find the fund financial statement presentation to be familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities, the Town uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements. All of the Town funds can be divided into three categories as follows:

*Governmental Funds:* Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the Town's near term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements.

The Town maintains several governmental funds. Of the funds three are considered major funds (the general fund, the wastewater facility capital project, and the police annex capital project) and are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

The basic governmental fund financial statements can be found on the accompanying pages of this report.

*Proprietary Funds:* The Town of Chatham maintains two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the proprietary funds to account for its water and waste wood reclamation activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations.

The basic proprietary fund financial statements can be found in the accompanying pages of this report.

# TOWN OF CHATHAM, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2011

*Fiduciary Funds:* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the Town's functions and activities. The full accrual basis of accounting is used for fiduciary funds.

The fiduciary fund financial statements provide separate information for private purpose trust funds and agency funds. The fiduciary fund financial statements can be found on the accompanying pages of this report.

*Notes to the Financial Statements:* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found the accompanying pages of this report.

### Government Wide Financial analysis

*Statement of Net Assets:* The following table reflects the condensed schedule of net assets based on the statement of net assets found on the accompanying pages of this report.

|  | FY 2011   | FY 2010   |                          |
|--|---|---|--------------------------|
|  | Governmental/<br>Business-type<br><u>Activities</u> | Governmental/<br>Business-type<br><u>Activities</u> | Percent<br><u>Change</u> |
| Current assets                                     | \$ 23,724,329                                       | \$ 71,244,501                                       | -66.70%                  |
| Capital assets                                     | 153,220,628   | 112,570,375   | 36.11%                   |
| Total assets                                       | 176,944,957   | 183,814,876   | -3.74%                   |
|  |   |   |                          |
| Current liabilities                                | 61,521,224  | 68,600,790  | -10.32%                  |
| Long-term liabilities                              | 41,983,334  | 40,739,691  | 3.05%                    |
| Total liabilities                                  | 103,504,558   | 109,340,481   | -5.34%                   |
|  |   |   |                          |
| Net assets:  |   |   |                          |
| Invested in capital assets,<br>net of related debt | 61,640,100  | 57,022,813  | 8.10%                    |
| Restricted   | 2,867,846   | 6,918,669   | -58.55%                  |
| Unrestricted                                       | 8,932,453   | 10,532,913  | -15.19%                  |
| Total net assets                                   | <u>\$ 73,440,399</u>                                | <u>\$ 74,474,395</u>                                | -1.39%                   |

The Town's net assets exceeded its liabilities at June 30, 2011 and 2010 by \$73,440,399 and \$74,474,395 (presented as net assets), respectively. Included in these amounts are unrestricted net assets of \$8,932,453 and \$10,532,913, respectively.

The components of net assets include investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, water and sewer pipes, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$61,640,100 and \$57,022,813 at June 30, 2011 and 2010, indicating the amount of capital debt does not exceed the net book value of the Town's capital assets. The Town uses these capital assets to service the community; therefore they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.



# TOWN OF CHATHAM, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2011

*Statement of Activities:* The Town's total net assets (primary government) decreased by \$1,033,996 and increased by \$1,044,292 during fiscal year 2011 and 2010, respectively.

This summary schedule - governmental activities, is based upon the statement found in the accompanying pages of this report:

|   | Governmental Activities |                      |                 |
|---|-------------------------|----------------------|-----------------|
|   | <u>June 30, 2011</u>    | <u>June 30, 2010</u> | <u>% Change</u> |
| <b>Revenues:</b>                        |                         |                      |                 |
| Program Revenues:                       |                         |                      |                 |
| Charges for services                    | \$ 4,027,075            | \$ 4,372,485         | -7.90%          |
| Operating grants and contributions      | 6,195,523               | 5,344,188            | 15.93%          |
| Capital grants and contributions        | 334,096                 | 2,512,631            | -86.70%         |
| <b>Total program revenues</b>           | <b>10,556,694</b>       | <b>12,229,304</b>    | <b>-13.68%</b>  |
| General Revenues:                       |                         |                      |                 |
| Property taxes levied                   | 26,195,971              | 25,505,942           | 2.71%           |
| Excise taxes                            | 2,119,191               | 2,020,511            | 4.88%           |
| Penalties and interest on taxes         | 128,154                 | 156,323              | -18.02%         |
| Grants and contributions not restricted | 186,638                 | 138,736              | 34.53%          |
| Loss on disposal of capital assets      | (44,477)                | (4,820)              | 822.76%         |
| Investment income                       | 161,843                 | 179,683              | -9.93%          |
| Miscellaneous                           | 579,681                 | 379,648              | 52.69%          |
| Transfers                               | (605,488)               | (610,738)            | -0.86%          |
| Contributed capital                     | 2,000                   |                      | 100.00%         |
| <b>Total general revenues</b>           | <b>28,723,513</b>       | <b>27,765,285</b>    | <b>3.45%</b>    |
| <b>Total Revenues</b>                   | <b>39,280,207</b>       | <b>39,994,589</b>    | <b>-1.79%</b>   |
| <b>Expenses:</b>                        |                         |                      |                 |
| General government                      | 3,386,605               | 2,926,732            | 15.71%          |
| Public safety                           | 5,176,832               | 5,012,580            | 3.28%           |
| Education                               | 12,376,382              | 12,446,710           | -0.57%          |
| Public works                            | 5,066,629               | 5,156,519            | -1.74%          |
| Community planning and development      | 741,775                 | 782,824              | -5.24%          |
| Health and human services               | 699,763                 | 647,841              | 8.01%           |
| Culture and recreation                  | 1,400,719               | 1,292,397            | 8.38%           |
| Coastal resources                       | 1,636,797               | 1,541,176            | 6.20%           |
| Interest on long term debt              | 1,462,174               | 1,062,061            | 37.67%          |
| Employee fringe benefits                | 7,478,436               | 7,429,501            | 0.66%           |
| State and county charges                | 991,296                 | 926,279              | 7.02%           |
| <b>Total Expenses</b>                   | <b>40,417,408</b>       | <b>39,224,620</b>    | <b>3.04%</b>    |
| <b>Change in net assets</b>             | <b>(1,137,201)</b>      | <b>769,969</b>       | <b>-247.69%</b> |
| Net assets – beginning of year          | 59,797,688              | 59,027,719           | 1.30%           |
| Net assets – end of year                | <u>\$ 58,660,487</u>    | <u>\$ 59,797,688</u> | <b>-1.90%</b>   |

## **TOWN OF CHATHAM, MASSACHUSETTS**

### **Management's Discussion and Analysis**

**June 30, 2011**

#### **Total Revenues**

Total governmental activities revenue for 2011 and 2010 for the Town are comprised of general revenue of \$28,723,513 and \$27,765,285, charges for services of \$4,027,075 and \$4,372,485, operating grants and contributions of \$6,195,523 and \$5,344,188, capital grant and contribution revenue of \$334,096 and \$2,512,631 respectively. The significant decrease in the capital grant and contribution revenue relates to the decrease in airport improvement construction grants received in fiscal year 2011.

#### ***General Revenues***

Real Estate revenues are the Town's largest revenue source at \$26,195,971 and \$25,505,942, representing 91.20% and 91.86% of general revenues, respectively. The assessed tax valuation base is \$5,852,076,150, down from \$6,364,049,234 assessed in the prior year, showing a 8.0% decrease due to a falling property values.

#### ***Program Revenues***

Governmental charges for services are \$4,027,075 and \$4,372,485 representing a variety of departmental revenues. Of these amounts, the Public Works portion of \$1,378,781 and \$1,752,931, respectively, includes charges for services for the water, landfill and sewer.

Governmental operating grants and contributions of \$6,195,523 and \$5,344,188 represent several federal and state grants restricted to specific grant conditions. This accounts for approximately 15.77% and 13.36% of the total Town governmental activities revenues.

#### ***Expenses***

For fiscal year ended June 30, 2011 and 2010, expenses for governmental activities totaled \$40,417,408 and \$39,224,620. Education continues to be one of the Town's highest expenditures representing \$12,376,382 and \$12,446,710 or 30.62% and 31.73% of the total governmental expenses.

# TOWN OF CHATHAM, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2011

This summary schedule of activities – Business-Type Activities is based upon the statement found in the accompanying pages of this report:

| Business-Type Activities                           |                             |                             |                 |
|--|-----------------------------|-----------------------------|-----------------|
|  | <u>June 30, 2011</u>        | <u>June 30, 2010</u>        | <u>% Change</u> |
| <b>Revenues:</b>                                   |                             |                             |                 |
| Program Revenues:                                  |                             |                             |                 |
| Charges for services                               | \$ 2,485,152                | \$ 2,185,667                | 13.70%          |
| Fines and forfeitures                              | <u>24,158</u>               | <u>18,176</u>               | 32.91%          |
| <b>Total operating revenues</b>                    | <b>2,509,310</b>            | <b>2,203,843</b>            | <b>13.86%</b>   |
| Expenses:  |                             |                             |                 |
| Salaries, wages, and employee benefits             | 525,472                     | 541,300                     | -2.92%          |
| Expenses   | 1,548,308                   | 1,081,300                   | 43.19%          |
| Depreciation                                       | <u>767,698</u>              | <u>701,284</u>              | 9.47%           |
| <b>Total expenses</b>                              | <b>2,841,478</b>            | <b>2,323,884</b>            | <b>22.27%</b>   |
| <b>Total operating income</b>                      | <b>(332,168)</b>            | <b>(120,041)</b>            | <b>176.71%</b>  |
| <b>Non operating revenues (expenses)</b>           |                             |                             |                 |
| Debt service                                       | (425,323)                   | (460,941)                   | -7.73%          |
| Water tower lease                                  | 255,208                     | 244,567                     | 4.35%           |
| Transfers in                                       | <u>605,488</u>              | <u>610,738</u>              | -0.86%          |
| <b>Total non operating revenue (expenses), net</b> | <b>435,373</b>              | <b>394,364</b>              | <b>10.40%</b>   |
| <b>Change in net assets</b>                        | <b>103,205</b>              | <b>274,323</b>              | <b>-62.38%</b>  |
| Net assets – beginning of year                     | <u>14,676,707</u>           | <u>14,402,384</u>           | 1.90%           |
| Net assets – end of year                           | <u><b>\$ 14,779,912</b></u> | <u><b>\$ 14,676,707</b></u> | <b>0.70%</b>    |

### Financial Analysis of the Government's Fund Financial Statements

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

## TOWN OF CHATHAM, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2011

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$(41,782,201) a decrease of approximately \$39,710,000 from the prior year. The governmental funds' combined ending fund balances were reported in the following classifications: nonspendable fund balance of \$641,391, restricted fund balance of \$3,811,075, committed fund balance of \$3,791,997; assigned fund balance of \$1,041,107 and unassigned fund balance of \$(51,067,771).

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$6.3 million, a decrease of \$0.6 million from the previous year. Of this amount \$666,607 or 10.7% represents restricted fund balance. Committed fund balance of \$2,019,249 and assigned fund balance of \$1,041,107 represent 32.3% and 16.7% of total general fund balance respectively. Unassigned fund balance of \$2,524,744 represents 40.3% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures and revenues. Total unassigned fund balance represents approximately 7.2% and 6.9%, respectively, of total general fund expenditures and revenues, while total General fund balance represents 17.8% and 17.1%, respectively, of the same amounts.

#### **General Fund Budgetary Highlights**

The difference between the original expenditure budget of \$38,426,347 and the final expenditure budget of \$35,377,668 is due to \$2.2 million in encumbrances and articles being carried over to the subsequent fiscal year as well as \$0.8 million appropriated at a special town meeting during the year.

#### **Capital Asset and Debt Administration**

*Capital Assets:* The Town's investment in capital assets for governmental activities as of June 30, 2011 and 2010, amounts to \$132,798,857 and \$91,567,133, which is net of accumulated depreciation of \$37,264,350 and \$34,687,546. The investment in capital assets includes land; buildings; improvements; machinery and equipment and infrastructure.

The Town's investment in capital assets for business-type activities as of June 30, 2011 and 2010, amounts to \$20,421,771 and \$21,003,242, which is net of accumulated depreciation of \$17,864,613 and \$16,936,438. The investment in capital assets includes land; buildings; machinery and equipment and infrastructure.

The table below represents a summary of the Town's capital assets by category (in thousands):

|                                 | <b><u>Governmental Activities</u></b> |                    | <b><u>Business-type Activities</u></b> |                    |
|---------------------------------|---------------------------------------|--------------------|--|--------------------|
|                                 | <b><u>2011</u></b>                    | <b><u>2010</u></b> | <b><u>2011</u></b>                     | <b><u>2010</u></b> |
| Land                            | \$ 29,685                             | \$ 27,760          | \$ 3,163                               | \$ 3,163           |
| Construction in progress        | 53,305                                | 15,048             | 239                                    | 1,456              |
| Buildings and improvements      | 31,049                                | 31,269             | 961                                    | 57                 |
| Improvements non-buildings      | 7,198                                 | 6,314              | 418                                    |                    |
| Equipment, machinery & vehicles | 3,290                                 | 2,627              | 31                                     | 27                 |
| Infrastructure                  | 8,272                                 | 8,549              | 15,610                                 | 16,300             |
|                                 | <u>\$ 132,799</u>                     | <u>\$ 91,567</u>   | <u>\$ 20,422</u>                       | <u>\$ 21,003</u>   |

## TOWN OF CHATHAM, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2011

Major capital asset events for governmental and business-type activities during 2011 include the following:

- Highway and sidewalk improvements
- Construction costs on police annex
- Construction costs on wastewater treatment facility
- Chemical feed building construction
- Purchase of land

Major capital asset events for governmental and business-type activities during 2010 include the following:

- Construction costs on airport
- Highway and sidewalk improvements
- Construction costs on police annex
- Construction costs on wastewater treatment facility
- Chemical feed building construction
- Water tank renovation

*Long-term debt:* At June 30, 2011, the Town had total bonded debt outstanding of \$30,063,864 and \$6,625,034 for the governmental and business-type activities, respectively, which is a decrease of 0.5% for the governmental and a decrease of 11.2% for the business-type activities from prior year. All debt is a general obligation of the Town.

In addition the Town had short term notes of \$53,853,963 at June 30, 2011 and \$45,243,500 June 30, 2010. The short term interest rate was 0.25% - 1.50% and 0.25% - 1.50%, respectively.

The Town of Chatham maintains a bond rating of AAA with Standard and Poor's Corporation. The bond rating is significant in the respect that Chatham is the only Town in New England with an AAA bond rating that does not have access to a metropolitan economy.

### **Economic Factors and Next Year's Budgets and Rates**

The Town has increased its property tax levy by 4.3%, which includes new growth.

The operating budget increased 1.4% over the FY 11 budget. The increase is mostly attributable to general budget inflation. The capital budget of \$887,600 is a decrease of 23.5% from FY 11.

### **Contacting the Town's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to Town of Chatham, Attn: Accounting Office, 549 Main Street, Chatham, MA 02633.

## **BASIC FINANCIAL STATEMENTS**

TOWN OF CHATHAM, MASSACHUSETTS  
Statement of Net Assets  
June 30, 2011

|   | Primary Government    |                      |                      | Component Unit      |
|---|-----------------------|----------------------|----------------------|---------------------|
|   | Governmental          | Business-type        | Total                | Eldredge Public     |
|   | Activities            | Activities           |                      | Library             |
| <b><u>ASSETS</u></b>                            |                       |                      |                      |                     |
| Cash and cash equivalents                       | \$ 6,064,155          | \$ 1,872,964         | \$ 7,937,119         | \$ 106,745          |
| Restricted cash and cash equivalents            |                       |                      |                      | 51,541              |
| Investments                                     | 5,331,823             |                      | 5,331,823            | 4,145,833           |
| Receivables                                     | 9,667,023             | 681,441              | 10,348,464           | 4,189               |
| Deferred Charges                                | 98,850                | 8,073                | 106,923              | 4,595               |
| Capital assets, net of accumulated depreciation | 132,798,857           | 20,421,771           | 153,220,628          | 5,955               |
| Total assets                                    | <u>\$ 153,960,708</u> | <u>\$ 22,984,249</u> | <u>\$176,944,957</u> | <u>\$ 4,318,858</u> |
| <b><u>LIABILITIES</u></b>                       |                       |                      |                      |                     |
| Warrants payable                                | \$ 2,621,394          | \$ 39,001            | \$ 2,660,395         | \$ 27,027           |
| Accrued interest                                | 336,877               | 81,261               | 418,138              |                     |
| Notes payable                                   | 52,453,963            | 1,400,000            | 53,853,963           |                     |
| Provision for refund of paid taxes              | 269,372               |                      | 269,372              |                     |
| Agency and other payables                       | 201,677               |                      | 201,677              |                     |
| Noncurrent liabilities                          |                       |                      |                      |                     |
| Due within one year                             | 3,291,429             | 826,250              | 4,117,679            |                     |
| Due in more than one year                       | 36,125,509            | 5,857,825            | 41,983,334           | 21,586              |
| Total liabilities                               | <u>95,300,221</u>     | <u>8,204,337</u>     | <u>103,504,558</u>   | <u>48,613</u>       |
| <b><u>NET ASSETS</u></b>                        |                       |                      |                      |                     |
| Invested in capital assets, net of related debt | 49,280,044            | 12,360,056           | 61,640,100           |                     |
| Restricted                                      | 2,867,846             |                      | 2,867,846            | 845,368             |
| Unrestricted                                    | 6,512,597             | 2,419,856            | 8,932,453            | 3,424,877           |
| Total net assets                                | <u>58,660,487</u>     | <u>14,779,912</u>    | <u>73,440,399</u>    | <u>4,270,245</u>    |
| Total liabilities and net assets                | <u>\$ 153,960,708</u> | <u>\$ 22,984,249</u> | <u>\$176,944,957</u> | <u>\$ 4,318,858</u> |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
Statement of Activities  
For the Year Ended June 30, 2011

| Functions/Programs<br>Primary Government                     | Program Revenues |                      |                                    | Net (Expense) Revenue and Changes in Net Assets |                         |                          |                |
|--|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|----------------|
|  | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions                | Primary Government      |                          | Component Unit |
|  |                  |                      |                                    |   | Governmental Activities | Business-type Activities |                |
| Governmental activities                                      |                  |                      |                                    |   |                         |                          |                |
| General government   | \$ 3,386,605     | \$ 243,924           | \$ 785,521                         | \$ 142,500                                      | \$ (2,214,660)          | \$ (2,214,660)           | \$             |
| Public safety  | 5,176,832        | 1,022,829            | 89,434                             |   | (4,064,569)             | (4,064,569)              |                |
| Community planning and development                           | 741,775          |                      |                                    |   | (741,775)               | (741,775)                |                |
| Education  | 12,376,382       | 185,026              | 3,081,879                          |   | (9,109,477)             | (9,109,477)              |                |
| Public works   | 5,066,629        | 1,378,781            | 36,975                             | 191,596   | (3,459,277)             | (3,459,277)              |                |
| Health and human services                                    | 699,763          | 77,901               | 19,889                             |   | (601,973)               | (601,973)                |                |
| Culture and recreation                                       | 1,400,719        | 152,017              | 21,408                             |   | (1,227,294)             | (1,227,294)              |                |
| Coastal resources  | 1,636,797        | 966,597              | 125,366                            |   | (544,834)               | (544,834)                |                |
| Interest on long-term debt                                   | 1,462,174        |                      | 9,474                              |   | (1,452,700)             | (1,452,700)              |                |
| Employee fringe benefits                                     | 7,478,436        |                      | 2,025,577                          |   | (5,452,859)             | (5,452,859)              |                |
| State and county charges                                     | 991,296          |                      |                                    |   | (991,296)               | (991,296)                |                |
| Total governmental activities                                | 40,417,408       | 4,027,075            | 6,195,523                          | 334,096   | (29,860,714)            | (29,860,714)             |                |
| Business-type activities                                     |                  |                      |                                    |   |                         |                          |                |
| Water fund   | 3,199,993        | 2,728,843            |                                    |   | (471,150)               | (471,150)                |                |
| Wood Waste Reclamation Center                                | 66,808           | 35,675               |                                    |   | (31,133)                | (31,133)                 |                |
| Total business-type  | 3,266,801        | 2,764,518            |                                    |   | (502,283)               | (502,283)                |                |
| Total primary government                                     | \$ 43,684,209    | \$ 6,791,593         | \$ 6,195,523                       | \$ 334,096                                      | (29,860,714)            | (30,362,997)             |                |
| Component Unit   |                  |                      |                                    |   |                         |                          | (170,177)      |
| Eldredge Public Library                                      | \$ 807,860       | \$                   | \$ 637,683                         | \$  |                         |                          |                |
| General revenues   |                  |                      |                                    |   |                         |                          |                |
| Property taxes, net of allowances for uncollectibles         |                  |                      |                                    |   | 26,195,971              | 26,195,971               |                |
| Excise taxes   |                  |                      |                                    |   | 2,119,191               | 2,119,191                |                |
| Penalties and interest on taxes                              |                  |                      |                                    |   | 128,154                 | 128,154                  |                |
| Grants and contributions not restricted to specific programs |                  |                      |                                    |   | 186,638                 | 186,638                  |                |
| Investment income  |                  |                      |                                    |   | 161,843                 | 161,843                  | 870,483        |
| Loss on disposal of assets                                   |                  |                      |                                    |   | (44,477)                | (44,477)                 |                |
| Miscellaneous  |                  |                      |                                    |   | 579,681                 | 579,681                  | 15,367         |
| Capital contributions  |                  |                      |                                    |   | 2,000                   | 2,000                    |                |
| Transfers  |                  |                      |                                    |   | (605,488)               | 605,488                  |                |
| Total general revenues, special items and transfers          |                  |                      |                                    |   | 28,723,513              | 29,329,001               | 885,850        |
| Change in net assets   |                  |                      |                                    |   | (1,137,201)             | (1,033,996)              | 715,673        |
| Net assets - beginning of year                               |                  |                      |                                    |   | 59,797,688              | 14,676,707               | 3,554,572      |
| Net assets - end of year                                     |                  |                      |                                    |   | \$ 58,660,487           | \$ 14,779,912            | \$ 4,270,245   |

The accompanying notes are an integral part of these financial statements.



**TOWN OF CHATHAM, MASSACHUSETTS**

Balance Sheet - Governmental Funds

June 30, 2011

|                                     | <b>General<br/>Fund</b> | <b>Wastewater<br/>Facility</b> | <b>Police Annex</b>   | <b>Non-major<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|-------------------------------------|-------------------------|--------------------------------|-----------------------|---|---|
| <b><u>ASSETS</u></b>                |                         |                                |                       |   |   |
| Cash and cash equivalents           | \$ 5,308,567            | \$ (688,223)                   | \$ (1,211,463)        | \$ 2,655,274                                | \$ 6,064,155                            |
| Investments                         | 1,957,394               |                                |                       | 3,374,429                                   | 5,331,823                               |
| Receivables, net                    | 7,540,068               | 2,220,650                      |                       | 232,172                                     | 9,992,890                               |
| Total assets                        | <u>\$14,806,029</u>     | <u>\$ 1,532,427</u>            | <u>\$ (1,211,463)</u> | <u>\$ 6,261,875</u>                         | <u>\$ 21,388,868</u>                    |
| <b><u>LIABILITIES</u></b>           |                         |                                |                       |   |   |
| Accounts payable                    | \$ 690,782              | \$ 1,359,887                   | \$                    | \$ 570,725                                  | \$ 2,621,394                            |
| Amounts withheld from employees     | 93,172                  |                                |                       |   | 93,172                                  |
| Notes payable                       |                         | 35,953,963                     | 15,000,000            | 1,500,000                                   | 52,453,963                              |
| Provision for refund of paid taxes  | 269,372                 |                                |                       |   | 269,372                                 |
| Deferred revenue                    | 7,392,491               |                                |                       | 232,172                                     | 7,624,663                               |
| Agency and other payables           | 108,505                 |                                |                       |   | 108,505                                 |
| Total liabilities                   | <u>8,554,322</u>        | <u>37,313,850</u>              | <u>15,000,000</u>     | <u>2,302,897</u>                            | <u>63,171,069</u>                       |
| <b><u>FUND BALANCES</u></b>         |                         |                                |                       |   |   |
| Nonspendable                        |                         |                                |                       | 641,391                                     | 641,391                                 |
| Restricted                          | 666,607                 |                                |                       | 3,144,468                                   | 3,811,075                               |
| Committed                           | 2,019,249               |                                |                       | 1,772,748                                   | 3,791,997                               |
| Assigned                            | 1,041,107               |                                |                       |   | 1,041,107                               |
| Unassigned                          | <u>2,524,744</u>        | <u>(35,781,423)</u>            | <u>(16,211,463)</u>   | <u>(1,599,629)</u>                          | <u>(51,067,771)</u>                     |
| Total fund balances                 | <u>6,251,707</u>        | <u>(35,781,423)</u>            | <u>(16,211,463)</u>   | <u>3,958,978</u>                            | <u>(41,782,201)</u>                     |
| Total liabilities and fund balances | <u>\$14,806,029</u>     | <u>\$ 1,532,427</u>            | <u>\$ (1,211,463)</u> | <u>\$ 6,261,875</u>                         | <u>\$ 21,388,868</u>                    |

Amounts reported for governmental activities in the statement of net assets are different because:

|   |                      |
|---|----------------------|
| Total fund balances of governmental funds   | \$ (41,782,201)      |
| Capital assets used in governmental activities are not financial resources and not reported in funds.                           | 132,798,857          |
| Other long-term assets are not available to pay for current-period expenditures and are deferred in funds.                      | 7,624,663            |
| Reporting of assets on a full accrual basis requires an estimate for uncollectible accounts.                                    | (325,867)            |
| Long-term liabilities, net of deferred charges, of are not due and payable in the current period and are not included in funds. | (39,318,088)         |
| Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.                      | (336,877)            |
| Net assets of governmental activities   | <u>\$ 58,660,487</u> |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2011

|  | General<br>Fund | Wastewater<br>Facility | Police Annex    | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-----------------|------------------------|-----------------|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                 |                        |                 |                                |                                |
| Property taxes   | \$ 24,736,694   | \$                     | \$              | \$ 1,388,193                   | \$ 26,124,887                  |
| Excise taxes   | 2,137,459       |                        |                 |                                | 2,137,459                      |
| Licenses and permits   | 783,904         |                        |                 | 281,962                        | 1,065,866                      |
| Penalties and interest   | 125,914         |                        |                 | 2,240                          | 128,154                        |
| Investment income  | 107,148         |                        |                 | 54,695                         | 161,843                        |
| Charges for services   | 2,210,200       |                        |                 | 252,848                        | 2,463,048                      |
| Special assessments  | 180,499         |                        |                 |                                | 180,499                        |
| Fees and fines   | 55,912          |                        |                 |                                | 55,912                         |
| Contributions  |                 |                        |                 | 275,983                        | 275,983                        |
| Departmental and other   | 760,167         |                        |                 | 81,364                         | 841,531                        |
| Intergovernmental  | 3,936,293       |                        |                 | 3,437,226                      | 7,373,519                      |
| Total revenues   | 35,034,190      |                        |                 | 5,774,511                      | 40,808,701                     |
| <b>Expenditures</b>  |                 |                        |                 |                                |                                |
| Current:   |                 |                        |                 |                                |                                |
| General government   | 2,641,739       |                        |                 | 3,154,466                      | 5,796,205                      |
| Public safety  | 4,984,251       |                        | 11,258,429      | 52,974                         | 16,295,654                     |
| Education  | 9,977,972       |                        |                 | 1,894,916                      | 11,872,888                     |
| Public works   | 4,260,456       | 29,268,697             |                 | 451,235                        | 33,980,388                     |
| Community development  | 757,968         |                        |                 |                                | 757,968                        |
| Human services   | 675,706         |                        |                 | 41,037                         | 716,743                        |
| Culture and recreation   | 933,687         |                        |                 | 77,119                         | 1,010,806                      |
| Coastal resources  | 894,940         |                        |                 | 530,725                        | 1,425,665                      |
| Employee benefits  | 5,334,580       |                        |                 |                                | 5,334,580                      |
| State and county assessments   | 991,296         |                        |                 |                                | 991,296                        |
| Debt Service:  |                 |                        |                 |                                |                                |
| Principal  | 3,343,307       |                        |                 |                                | 3,343,307                      |
| Interest and other charges   | 1,677,211       |                        |                 |                                | 1,677,211                      |
| Total expenditures   | 36,473,113      | 29,268,697             | 11,258,429      | 6,202,472                      | 83,202,711                     |
| Revenues over (under) expenditures   | (1,438,923)     | (29,268,697)           | (11,258,429)    | (427,961)                      | (42,394,010)                   |
| <b>Other financing sources (uses)</b>  |                 |                        |                 |                                |                                |
| Issuance of long term debt   |                 | 3,289,537              |                 |                                | 3,289,537                      |
| Transfers in from other funds  | 1,644,335       |                        |                 | 32,774                         | 1,677,109                      |
| Transfers out to other funds   | (768,139)       |                        |                 | (1,514,458)                    | (2,282,597)                    |
| Total other financing sources and (uses)   | 876,196         | 3,289,537              |                 | (1,481,684)                    | 2,684,049                      |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses | (562,727)       | (25,979,160)           | (11,258,429)    | (1,909,645)                    | (39,709,961)                   |
| Fund balances, beginning of year, restated (Note 14)                                       | 6,814,434       | (9,802,263)            | (4,953,034)     | 5,868,623                      | (2,072,240)                    |
| Fund balances, end of year   | \$ 6,251,707    | \$ (35,781,423)        | \$ (16,211,463) | \$ 3,958,978                   | \$ (41,782,201)                |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
To Statement of Activities  
For the Year Ended June 30, 2011

Revenues and other financing sources over expenditures  
and other financing uses \$ (39,709,961)

Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.

|   |             |
|---|-------------|
| Capital outlays during the fiscal year    | 43,985,436  |
| Depreciation recorded for the fiscal year | (2,709,235) |
| Loss on disposal of capital assets        | (44,477)    |

Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.

|  |           |
|--|-----------|
| Net change in deferred revenue                     | (869,400) |
| Net change in allowance for uncollectible accounts | (11,130)  |

The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.

|                                      |             |
|--------------------------------------|-------------|
| Proceeds from long-term debt         | (3,289,537) |
| Principal payments on long-term debt | 3,450,830   |
| Amortization from bond premiums      | 113,144     |
| Amortization of bond issuance costs  | (14,121)    |

The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.

|  |       |
|--|-------|
| Net change in accrued interest expense | 8,491 |
|--|-------|

Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:

|                                |             |
|--------------------------------|-------------|
| Other post employment benefits | (2,143,856) |
| Compensated absences           | 71,615      |
| Landfill closure liability     | 25,000      |

Change in net assets of governmental activities \$ (1,137,201)

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**

Statement of Net Assets - Proprietary Funds

June 30, 2011

|   | <b>Business-Type Activities</b> |  |                      |
|---|---------------------------------|--|----------------------|
|   | <b>Water<br/>Activities</b>     | <b>Wood Waste<br/>Reclamation<br/>Facility</b> | <b>Totals</b>        |
| <b><u>ASSETS</u></b>                              |                                 |  |                      |
| Cash and cash equivalents                         | \$ 1,763,229                    | \$ 109,735                                     | \$ 1,872,964         |
| Receivables, net of allowances for uncollectibles | 681,441                         |  | 681,441              |
| Deferred Charges                                  | 8,073                           |  | 8,073                |
| Capital assets, net of accumulated depreciation   | 18,196,771                      | 2,225,000                                      | 20,421,771           |
| Total assets                                      | <u>\$ 20,649,514</u>            | <u>\$ 2,334,735</u>                            | <u>\$ 22,984,249</u> |
| <b><u>LIABILITIES</u></b>                         |                                 |  |                      |
| Warrants payable                                  | \$ 39,001                       | \$   | \$ 39,001            |
| Accrued interest payable                          | 75,005                          | 6,256  | 81,261               |
| Notes payable                                     | 1,400,000                       |  | 1,400,000            |
| Noncurrent liabilities:                           |                                 |  |                      |
| Due within one year                               | 676,250                         | 150,000  | 826,250              |
| Due in more than one year                         | 4,682,825                       | 1,175,000                                      | 5,857,825            |
| Total liabilities                                 | 6,873,081                       | 1,331,256                                      | 8,204,337            |
| <b><u>NET ASSETS</u></b>                          |                                 |  |                      |
| Invested in capital assets, net of related debt   | 11,460,056                      | 900,000  | 12,360,056           |
| Unrestricted                                      | 2,316,377                       | 103,479  | 2,419,856            |
| Total net assets                                  | <u>13,776,433</u>               | <u>1,003,479</u>                               | <u>14,779,912</u>    |
| Total liabilities and net assets                  | <u>\$ 20,649,514</u>            | <u>\$ 2,334,735</u>                            | <u>\$ 22,984,249</u> |

The accompanying notes are an integral part of these financial statements.

# TOWN OF CHATHAM, MASSACHUSETTS

## Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

June 30, 2011

|  | Business-Type Activities |                                       |               |
|--|--------------------------|---------------------------------------|---------------|
|  | Water<br>Activities      | Wood Waste<br>Reclamation<br>Facility | Totals        |
| <b>Operating revenues</b>                    |                          |                                       |               |
| Charges for services, departmental and other | \$ 2,449,477             | \$ 35,675                             | \$ 2,485,152  |
| Fines and forfeitures                        | 24,158                   |                                       | 24,158        |
| Total operating revenues                     | 2,473,635                | 35,675                                | 2,509,310     |
| <b>Operating expenses</b>                    |                          |                                       |               |
| Salaries and wages                           | 525,472                  |                                       | 525,472       |
| Operating expenses                           | 1,536,308                | 12,000                                | 1,548,308     |
| Depreciation                                 | 767,698                  |                                       | 767,698       |
| Total operating expenses                     | 2,829,478                | 12,000                                | 2,841,478     |
| <b>Operating income (loss)</b>               | (355,843)                | 23,675                                | (332,168)     |
| <b>Non operating revenues (expenses)</b>     |                          |                                       |               |
| Water tower lease                            | 255,208                  |                                       | 255,208       |
| Interest expense                             | (370,515)                | (54,808)                              | (425,323)     |
| Total non-operating revenue (expenses), net  | (115,307)                | (54,808)                              | (170,115)     |
| <b>Transfers</b>                             |                          |                                       |               |
| Transfers in from other funds                | 400,000                  | 205,488                               | 605,488       |
| Total transfers                              | 400,000                  | 205,488                               | 605,488       |
| <b>Change in net assets</b>                  | (71,150)                 | 174,355                               | 103,205       |
| Net assets at beginning of year              | 13,847,583               | 829,124                               | 14,676,707    |
| Net assets at end of year                    | \$ 13,776,433            | \$ 1,003,479                          | \$ 14,779,912 |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2011

|   | <u>Business-Type Activities</u> |  |                             |
|---|---------------------------------|--|-----------------------------|
|   | <u>Water<br/>Activities</u>     | <u>Wood Waste<br/>Reclamation<br/>Facility</u> | <u>Total<br/>Enterprise</u> |
| <b>Cash flows from operating activities</b>   |                                 |  |                             |
| Receipts from customers and users   | \$ 2,593,476                    | \$ 35,675                                      | \$ 2,629,151                |
| Payments to vendors   | (2,394,978)                     | (12,000)                                       | (2,406,978)                 |
| Payments to employees, including fringe benefits  | (526,166)                       |  | (526,166)                   |
| Net cash provided by (used for) operating activities                                    | (327,668)                       | 23,675   | (303,993)                   |
| <b>Cash flows from noncapital financing activities</b>                                  |                                 |  |                             |
| Transfer in from General Fund   | 400,000                         | 205,488  | 605,488                     |
| Water tower lease   | 255,208                         |  | 255,208                     |
| Net cash used for capital and related financing activities                              | 655,208                         | 205,488  | 860,696                     |
| <b>Cash flows from capital and related financing activities</b>                         |                                 |  |                             |
| Payments of long-term debt principal  | (682,490)                       | (150,000)                                      | (832,490)                   |
| Proceeds from bond anticipation notes   | 1,400,000                       |  | 1,400,000                   |
| Paydown of bond anticipation notes  | (1,350,000)                     |  | (1,350,000)                 |
| Payments of interest costs  | (380,918)                       | (55,488)                                       | (436,406)                   |
| Net cash provided by (used for) capital and related financing activities                | (1,013,408)                     | (205,488)                                      | (1,218,896)                 |
| <b>Cash flows from investing activities</b>   |                                 |  |                             |
| Purchase of capital assets  | (186,227)                       |  | (186,227)                   |
| Net cash (used for) investing activities  | (186,227)                       |  | (186,227)                   |
| Net change in cash and cash equivalents   | (872,095)                       | 23,675   | (848,420)                   |
| Balances at the beginning of year   | 2,635,324                       | 86,060   | 2,721,384                   |
| Balances at the end of year   | <u>\$ 1,763,229</u>             | <u>\$ 109,735</u>                              | <u>\$ 1,872,964</u>         |
| <b>Reconciliation of operating income to net cash provided by operating activities</b>  |                                 |  |                             |
| Operating income  | \$ (355,843)                    | \$ 23,675                                      | \$ (332,168)                |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                                 |  |                             |
| Depreciation and amortization   | 767,698                         |  | 767,698                     |
| Changes in assets and liabilities:  |                                 |  |                             |
| User fees receivable, net of allowance for collectibles                                 | 119,840                         |  | 119,840                     |
| Warrants payable  | (858,670)                       |  | (858,670)                   |
| Accrued compensated absences  | (693)                           |  | (693)                       |
| Total adjustments   | 28,175                          |  | 28,175                      |
| Net cash provided by (used for) operating activities                                    | <u>\$ (327,668)</u>             | <u>\$ 23,675</u>                               | <u>\$ (303,993)</u>         |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**

## Statement of Net Assets - Fiduciary Funds

June 30, 2011

|  | <b><u>Private Purpose<br/>Trust Fund</u></b> | <b><u>Agency<br/>Accounts</u></b> |
|--|--|-----------------------------------|
| <b><u>ASSETS</u></b>                             |  |                                   |
| Cash and cash equivalents                        | \$ 2,945                                     | \$ 694,271                        |
| Investments                                      |  | 39,114                            |
| Receivables, net of allowance for uncollectibles |  | 27,456                            |
| Total assets                                     | <u>\$ 2,945</u>                              | <u>\$ 760,841</u>                 |
| <b><u>LIABILITIES</u></b>                        |  |                                   |
| Warrants payable                                 | \$   | \$ 18,629                         |
| Accounts payable and other current liabilities   |  | 742,212                           |
| Total liabilities                                |  | <u>760,841</u>                    |
| <b><u>NET ASSETS</u></b>                         |  |                                   |
| Held in trust                                    | <u>2,945</u>                                 |                                   |
| Total liabilities and net assets                 | <u>\$ 2,945</u>                              | <u>\$ 760,841</u>                 |

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
Statement of Changes in Net Assets - Fiduciary Funds  
For the Year Ended June 30, 2011

|                                 | <b>Private Purpose<br/>Trust Funds</b> |
|---------------------------------|--|
| <b>Additions</b>                |  |
| Interest and dividends          | \$ 34                                  |
|                                 | <hr/>                                  |
| Total additions                 | 34                                     |
|                                 | <hr/>                                  |
| Change in net assets            | 34                                     |
| Net assets at beginning of year | 2,911                                  |
|                                 | <hr/>                                  |
| Net assets at end of year       | \$ 2,945                               |
|                                 | <hr/> <hr/>                            |

The accompanying notes are an integral part of these financial statements.



## **NOTES TO FINANCIAL STATEMENTS**

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### Note 1. Organization and Reporting Entity

#### A. Organization

The Town of Chatham, Massachusetts (the "Town"), was incorporated June 11, 1712. The Town operates under a Town Meeting form of government. The Town's major operations include police and fire protection, parks and recreation, public works and general administrative services. In addition, the Town owns and operates a water system, septage facility and transfer station.

#### B. Reporting Entity

##### General

The accompanying financial statements present the Town of Chatham, Massachusetts (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. One entity has been included as a component unit in the reporting entity, because of the significance of their financial relationship with the Town.

*Discretely Presented Component Units* – Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town has included the Eldredge Public Library as a Discretely Presented Component Unit because they are fiscally dependent on the Town and because the nature and significance of their relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. Accordingly, the Component Unit column of the government-wide financial statements includes the financial data of the Eldredge Public Library. Complete financial statements of the component unit can be obtained directly from the administrative office of Eldredge Public Library, Inc, located at 564 Main Street, Chatham, MA.

##### Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's joint ventures, their purpose, and the annual assessment paid by the Town. Financial statements may be obtained from each the joint ventures by contacting each of them directly. The Town does not have an equity interest in these joint ventures.

| <u>Joint venture and address</u>  | <u>Purpose</u>   | <u>Assessment</u> |
|---|--|-------------------|
| Cape Cod Municipal Health Group<br>c/o Group Benefits Strategies<br>27 Midstate Office Park<br>Auburn, MA 01501 | To provide employee health insurance                   | \$ 5,396,390      |
| Cape Cod Regional Technical High School<br>Route 124<br>Harwich, MA 02645                                       | To provide vocational education to students 9-12 grade | \$ 272,759        |
| Cape Cod Regional Transit Authority<br>585 Main Street<br>Dennis, MA 02638                                      | To provide regional transportation services            | \$ 14,635         |
| District Department of Veteran Services<br>PO Box 429<br>Hyannis, MA 02601                                      | To provide services to veterans                        | \$ 35,481         |
| Pleasant Bay Resource Management Alliance<br>P.O. Box 1584<br>Harwich, MA 02645                                 | To protect the vast natural resources of Pleasant Bay  | \$ 32,774         |

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### Related Organizations

The Chatham Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth are legally responsible for the overall operation.

### **Note 2. Summary of Significant Accounting Policies**

#### **A. Basis of Presentation**

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town is discussed below.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's police and fire protection, parks and recreation, public works, schools, and general administrative services are classified as governmental activities. The Town's water and wood waste reclamation operations are classified as business-type activities.

#### Government-wide Statements

In the government-wide Statement of Net Assets the non-fiduciary activities of the primary government and its component unit are reported. Both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The component unit of the Town is reported in a separate column. The Town's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions, business-type activities and component units. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function, a business-type activity or component unit. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function, business-type activity or component unit) are normally covered by general revenue.

## TOWN OF CHATHAM, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2011

Certain costs, such as property and liability insurance, among others are not allocated among the Town's functions and are included in general government expenses in the Statement of Activities. Employee fringe benefit costs are reported in a separate "Employee Benefits" function.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

#### Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following governmental fund types are used by the Town:

#### Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

- General fund is the primary operating fund of the Town. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service and capital projects.
- Debt service funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Currently, the Town does not utilize a debt service fund.
- Capital projects funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
- Permanent funds are used to account for resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizens.

#### Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

## TOWN OF CHATHAM, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2011

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs.
- Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Town on a cost-reimbursement basis. Currently, the Town does not utilize internal service funds.

#### Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements.
- Agency funds are used to hold funds on behalf of parties other than the Town, including federal and state agencies and public school student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The major funds for the current fiscal year are the General Fund, the Wastewater Treatment Facility capital project fund, and the Police Annex capital project fund. The nonmajor funds are combined in a column in the fund financial statements.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

#### **B. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## TOWN OF CHATHAM, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2011

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and property tax revenues are considered available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt, or earlier, if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

#### **C. Cash and Investments**

For the purpose of the Statement of Net Assets, "cash and cash equivalents" include all demand, savings accounts, and certificates of deposits of the Town.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in the notes.

#### **D. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

#### **E. Receivables**

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three years or more years old as uncollectible for financial reporting purposes. The Town estimates 3% of outstanding water, septage and transfer station charges and 25% of ambulance charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectable.

#### **F. Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

## TOWN OF CHATHAM, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2011

#### Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                           |             |
|---------------------------|-------------|
| ➤ Buildings               | 25-50 years |
| ➤ Improvements            | 10-50 years |
| ➤ Machinery and Equipment | 3-20 years  |
| ➤ Utility System          | 25-50 years |
| ➤ Infrastructure          | 25-50 years |

#### Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### **G. Long-term Obligations**

The accounting treatment of long-term obligations depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term obligations consist primarily of notes and bonds payable, accrued compensated absences, and post closure monitoring costs for municipal landfills.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the governmental-wide statements.

#### **H. Compensated Absences**

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### I. Equity Classifications

#### Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

#### Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting.
- Assigned fund balance – consist of amounts that are constrained by the Town’s intent to be used for a specific purpose. Intent is expressed by either the governing body, or the officials directly responsible for departmental appropriations
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.



## **TOWN OF CHATHAM, MASSACHUSETTS**

### **Notes to Financial Statements**

June 30, 2011

#### **J. Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

#### **K. Total columns**

The total column presented on the government-wide financial statements represents consolidated financial information.

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

#### **Note 3. Stewardship, Compliance and Accountability**

##### **A. Property tax calendar and limitations**

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide property tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls ("new growth"). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

##### **B. Budgetary basis of accounting**

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). A comparison of the budget to actual amounts on a "budgetary basis" is provided as required supplementary information to provide a meaningful comparison with the budget.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### C. Fund equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2011, the classification of the Town's fund balances can be detailed as follows:

|                                    | General<br>Fund | Wastewater<br>Facility | Police<br>Annex | Other<br>Governmental<br>Funds | Total           |
|------------------------------------|-----------------|------------------------|-----------------|--------------------------------|-----------------|
| <b>Nonspendable:</b>               |                 |                        |                 |                                |                 |
| Education                          | \$              | \$                     | \$              | \$ 242,410                     | \$ 242,410      |
| Public Works                       |                 |                        |                 | 398,981                        | 398,981         |
| subtotal                           |                 |                        |                 | 641,391                        | 641,391         |
| <b>Restricted:</b>                 |                 |                        |                 |                                |                 |
| General Government                 |                 |                        |                 | 1,311,685                      | 1,311,685       |
| Public Safety                      |                 |                        |                 | 114,918                        | 114,918         |
| Education                          |                 |                        |                 | 1,083,708                      | 1,083,708       |
| Public Works                       |                 |                        |                 | 142,820                        | 142,820         |
| Community Development              |                 |                        |                 | 10,173                         | 10,173          |
| Human Services                     |                 |                        |                 | 119,030                        | 119,030         |
| Culture & Recreation               |                 |                        |                 | 92,860                         | 92,860          |
| Coastal Resources                  |                 |                        |                 | 269,274                        | 269,274         |
| Debt Service                       | 666,607         |                        |                 |                                | 666,607         |
| subtotal                           | 666,607         |                        |                 | 3,144,468                      | 3,811,075       |
| <b>Committed:</b>                  |                 |                        |                 |                                |                 |
| General Government                 | 634,646         |                        |                 | 1,520,171                      | 2,154,817       |
| Public Safety                      | 101,252         |                        |                 |                                | 101,252         |
| Public Works                       | 786,116         |                        |                 |                                | 786,116         |
| Community Development              | 54,977          |                        |                 |                                | 54,977          |
| Human Services                     | 182,150         |                        |                 |                                | 182,150         |
| Culture & Recreation               |                 |                        |                 | 6,456                          | 6,456           |
| Coastal Resources                  | 260,108         |                        |                 | 246,121                        | 506,229         |
| subtotal                           | 2,019,249       |                        |                 | 1,772,748                      | 3,791,997       |
| <b>Assigned:</b>                   |                 |                        |                 |                                |                 |
| General Government                 | 33,611          |                        |                 |                                | 33,611          |
| Public Safety                      | 1,591           |                        |                 |                                | 1,591           |
| Education                          | 121,026         |                        |                 |                                | 121,026         |
| Public Works                       | 25,673          |                        |                 |                                | 25,673          |
| Culture & Recreation               | 6,566           |                        |                 |                                | 6,566           |
| Coastal Resources                  | 2,740           |                        |                 |                                | 2,740           |
| Employee Benefits                  | 35,600          |                        |                 |                                | 35,600          |
| To fund next year's capital budget | 814,300         |                        |                 |                                | 814,300         |
| subtotal                           | 1,041,107       |                        |                 |                                | 1,041,107       |
| <b>Unassigned</b>                  | 2,524,744       | (35,781,423)           | (16,211,463)    | (1,599,629)                    | (51,067,771)    |
| <b>Total</b>                       | \$ 6,251,707    | \$ (35,781,423)        | \$ (16,211,463) | \$ 3,958,978                   | \$ (41,782,201) |

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

Pursuant to MGL, the Town maintains a stabilization fund, which maintains funds set aside by Town Meeting vote for further appropriation, or in accordance with MGL for the Board of Selectmen to perform interfund borrowings during the year. Since this fund is not supported by specific revenue sources, it is included with the general fund unassigned fund balance. As of June 30, 2011, the Town maintained a balance of \$1,676,825 in its stabilization fund.

In addition, the general fund unassigned fund balance included a \$7,305 of abatements not provided for. The wastewater facility, police annex, and other nonmajor governmental funds report deficits related to bond anticipation note borrowings for the capital projects.

### **D. Restricted Net Assets**

Certain net assets reported as special revenue funds in the Town's fund basis Balance Sheet including the Town's Stabilization Fund are classified as unrestricted net assets because they are available for appropriation to fund the general operations of the Town.

Restricted net assets on the government-wide statement of net assets consist of the following:

|                                 |                     |
|---------------------------------|---------------------|
| Capital Project Fund balances   | \$ (980,772)        |
| Special Revenue Fund balances:  |                     |
| Community Preservation Act Fund | 1,030,018           |
| Other special revenue funds     | 2,045,784           |
| Permanent Funds:                |                     |
| Expendable                      | 131,425             |
| Non-expendable                  | 641,391             |
| Total restricted net assets     | <u>\$ 2,867,846</u> |

### **Note 4. Cash and investments**

Massachusetts General Laws, Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. At June 30, 2011 deposits totaled \$13,090,010 and had a carrying amount of \$8,634,335. Of the deposit amount, \$77,970 was exposed to custodial credit risk at June 30, 2011 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

At June 30, 2011 the carrying amount of deposits for the Component Unit totaled \$158,286. The total bank balance was covered by Federal Depository Insurance. Of the total carrying amount of deposits, \$51,541 is required to be held in a separate account until the donor of the funds specifies a purpose for the funds.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

The Town's investments are as follows:

| <u>Investment Type</u>        | <u>Fair Market Value</u> | <u>Rating</u> | <u>N/A</u>          | <u>Maturity</u>          |                     |                      |
|-------------------------------|--------------------------|---------------|---------------------|--------------------------|---------------------|----------------------|
|                               |                          |               |                     | <u>12 months or less</u> | <u>1 to 5 Years</u> | <u>6 to 10 Years</u> |
| U.S. treasury notes           | \$ 1,624,151             | Aaa           | \$                  | \$                       | \$ 851,778          | \$ 772,373           |
| Common Stock                  | 191,731                  | N/A           | 191,731             |                          |                     |                      |
| MMDT                          | 1,396,182                | N/A           | 1,396,182           |                          |                     |                      |
| Money Market Securities       | 1,497,437                | N/A           | 1,497,437           |                          |                     |                      |
| Certificates of Deposit       | 391,233                  | N/A           |                     | 291,058                  | 100,175             |                      |
| Mutual Funds                  | 79,917                   | N/A           | 79,917              |                          |                     |                      |
| Corporate Bonds               | 190,286                  | Aa2 - A2      |                     | 190,286                  |                     |                      |
| Total governmental activities | <u>\$ 5,370,937</u>      |               | <u>\$ 3,165,267</u> | <u>\$ 481,344</u>        | <u>\$ 951,953</u>   | <u>\$ 772,373</u>    |

The Component Unit's investments are as follows:

| <u>Investment Type</u>   | <u>Fair Market Value</u> | <u>Rating</u> | <u>Maturity</u> |
|--------------------------|--------------------------|---------------|-----------------|
| Cash held for investment | \$ 94,506                | N/A           | N/A             |
| Mutual Funds             | 3,951,327                | N/A           | N/A             |
| Total component unit     | <u>\$ 4,145,833</u>      |               |                 |

*Custodial credit risk* for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment policy addresses custodial credit risk by tracking the credit worthiness and diversification for all unsecured bank deposits.

*Interest rate risk* is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town's investment policy minimizes interest rate risk by structuring the investments so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter term banking instruments, securities, money market mutual funds, or similar investment pools. The approximate maturities of the Town's debt investments are disclosed in the above table.

*Concentration of credit risk* – The Town does not have an investment policy, which limits the amount that can be invested in any one issuer or security. Excluding U.S. Treasury securities, mutual funds and external investment pools, there are no securities or issuers, which represent more than 5% of the total investments of the general fund/governmental activities and fiduciary funds respectively.

*Credit risk* is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the above table. Equity securities and equity mutual funds are not rated as to credit risk. The average ratings of the Town's corporate bonds are disclosed in the above table. The Town's investment policy minimizes credit risk by diversification, prudent selection of investment instruments and limiting investments to highly safe types of securities.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Assets and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues, if any, are also reported on the Statement of Net Assets.

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

| <u>Receivable type</u>                  | <u>Gross<br/>Amount</u> | <u>Allowance for<br/>Uncollectible</u> | <u>Net<br/>Amount</u> | <u>Deferred<br/>Revenue</u> |
|---|-------------------------|--|-----------------------|-----------------------------|
| Real estate and personal property taxes | \$ 551,356              | \$ (109,414)                           | \$ 441,942            | \$ 440,321                  |
| Tax liens, deferrals and foreclosures   | 762,797                 |  | 762,797               | 726,255                     |
| Motor vehicle and other excise          | 232,251                 | (176,456)                              | 55,795                | 232,251                     |
| Departmental and other                  | 281,211                 | (39,997)                               | 241,214               | 281,211                     |
| Betterments and special assessments     | 596,603                 |  | 596,603               | 596,603                     |
| Intergovernmental:                      |                         |  |                       |                             |
| School Building Assistance              | 5,130,052               |  | 5,130,052             | 5,130,052                   |
| Community Preservation Act Match        | 211,354                 |  | 211,354               | 211,354                     |
| MWPAT Interim Note Drawdown Outstanding | 2,220,650               |  | 2,220,650             |                             |
| Accrued debt service subsidies          | 6,616                   |  | 6,616                 | 6,616                       |
| Total on governmental fund basis        | 9,992,890               |  |                       | \$ 7,624,663                |
| Totals on entity-wide basis             | \$ 9,992,890            | \$ (325,867)                           | \$ 9,667,023          |                             |

The Massachusetts Water Pollution Abatement Trust (MWPAT) draw down outstanding noted above relates to a \$12,243,500 interim loan (Note 9) issued to the Town on January 22, 2010 for the wastewater treatment facility project. The funds for this interim loan will be disbursed to the Town as reimbursements for the project. It is anticipated all funds will be disbursed to the Town by July 2012. During the current fiscal year the Town received an additional \$7,597,534, leaving \$2,220,650 outstanding.

Receivables for the Town's business-type activities (Water) consist of the following:

| <u>Receivable type</u>      | <u>Gross<br/>Amount</u> | <u>Allowance for<br/>Uncollectible</u> | <u>Net<br/>Amount</u> |
|-----------------------------|-------------------------|--|-----------------------|
| Water rates and charges     | \$ 166,004              | \$                                     | \$ 166,004            |
| Unbilled water rates        | 536,512                 |  | 536,512               |
| Allowance for uncollectible |                         | (21,075)                               | (21,075)              |
| Totals                      | \$ 702,516              | \$ (21,075)                            | \$ 681,441            |

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

|   | <u>Beginning</u>     |                      |                    | <u>Ending</u>         |
|---|----------------------|----------------------|--------------------|-----------------------|
|   | <u>Balances</u>      | <u>Increases</u>     | <u>Decreases</u>   | <u>Balances</u>       |
| <b><u>Governmental activities:</u></b>  |                      |                      |                    |                       |
| Capital assets not being depreciated:   |                      |                      |                    |                       |
| Land                                    | \$ 27,759,669        | \$ 1,925,000         | \$                 | \$ 29,684,669         |
| Construction in Progress                | 15,048,404           | 39,256,865           |                    | 54,305,269            |
| Sub-total                               | 42,808,073           | 41,181,865           |                    | 83,989,938            |
| Capital assets being depreciated:       |                      |                      |                    |                       |
| Buildings and related improvements      | 46,645,744           |                      |                    | 46,645,744            |
| Improvements other than buildings       | 12,046,077           | 1,402,358            |                    | 13,448,435            |
| Equipment, machinery & vehicles         | 5,998,845            | 1,242,789            | (176,908)          | 7,064,726             |
| Infrastructure                          | 18,755,940           | 158,424              |                    | 18,914,364            |
| Sub-total                               | 83,446,606           | 2,803,571            | (176,908)          | 86,073,269            |
| Less accumulated depreciation:          |                      |                      |                    |                       |
| Buildings and related improvements      | 15,377,162           | 1,219,254            |                    | 16,596,416            |
| Improvements other than buildings       | 5,731,495            | 518,559              |                    | 6,250,054             |
| Equipment, machinery & vehicles         | 3,371,720            | 536,102              | (132,431)          | 3,775,391             |
| Infrastructure                          | 10,207,169           | 435,320              |                    | 10,642,489            |
| Sub-total                               | 34,687,546           | 2,709,235            | (132,431)          | 37,264,350            |
| Governmental capital assets, net        | <u>\$ 91,567,133</u> | <u>\$ 41,276,201</u> | <u>\$ (44,477)</u> | <u>\$ 132,798,857</u> |
| <b><u>Business-type activities:</u></b> |                      |                      |                    |                       |
| <b><u>Water Activities</u></b>          |                      |                      |                    |                       |
| Capital assets not being depreciated:   |                      |                      |                    |                       |
| Land                                    | \$ 938,433           | \$                   | \$                 | \$ 938,433            |
| Construction in progress                | 1,456,185            | (1,217,059)          |                    | 239,126               |
| Sub-total                               | 2,394,618            | (1,217,059)          |                    | 1,177,559             |
| Capital assets being depreciated:       |                      |                      |                    |                       |
| Buildings and related improvements      | 199,109              | 945,704              |                    | 1,144,813             |
| Improvements other than buildings       |                      | 448,297              |                    | 448,297               |
| Equipment, machinery & vehicles         | 44,577               | 9,285                |                    | 53,862                |
| Infrastructure                          | 33,236,853           |                      |                    | 33,236,853            |
| Sub-total                               | 33,480,539           | 1,403,286            |                    | 34,883,825            |
| Less accumulated depreciation:          |                      |                      |                    |                       |
| Buildings and related improvements      | 142,653              | 42,086               |                    | 184,739               |
| Improvements other than buildings       |                      | 29,886               |                    | 29,886                |
| Equipment, machinery & vehicles         | 17,824               | 4,922                |                    | 22,746                |
| Infrastructure                          | 16,936,438           | 690,804              |                    | 17,627,242            |
| Sub-total                               | 17,096,915           | 767,698              |                    | 17,864,613            |
| Water activities capital assets, net    | <u>18,778,242</u>    | <u>(581,471)</u>     |                    | <u>18,196,771</u>     |

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

|   | <u>Beginning<br/>Balances</u> | <u>Increases</u>    | <u>Decreases</u> | <u>Ending<br/>Balances</u> |
|---|-------------------------------|---------------------|------------------|----------------------------|
| <b><u>Wood Waste Activities</u></b>       |                               |                     |                  |                            |
| Land                                      | 2,225,000                     |                     |                  | 2,225,000                  |
| Wood Waste activities capital assets, net | 2,225,000                     |                     |                  | 2,225,000                  |
| Business-Type capital assets, net         | <u>\$ 21,003,242</u>          | <u>\$ (581,471)</u> | <u>\$</u>        | <u>\$ 20,421,771</u>       |

**Component unit activities:**

Capital assets not being:

|                                    |                  |                    |           |                 |
|------------------------------------|------------------|--------------------|-----------|-----------------|
| Equipment & Furniture              | \$ 328,248       | \$ 2,395           | \$        | \$ 330,643      |
| Less accumulated depreciation:     |                  |                    |           |                 |
| Equipment & Furniture              | 312,737          | 11,951             |           | 324,688         |
| Component unit capital assets, net | <u>\$ 15,511</u> | <u>\$ ( 9,556)</u> | <u>\$</u> | <u>\$ 5,955</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

|  |                     |
|--|---------------------|
| General government                                   | \$ 150,852          |
| Public safety  | 219,187             |
| Education  | 619,083             |
| Public works   | 1,028,428           |
| Health and human services                            | 21,476              |
| Culture and recreation                               | 411,684             |
| Coastal resources                                    | 258,525             |
| Total depreciation expense – governmental activities | <u>\$ 2,709,235</u> |

Business-type activities:

|             |                   |
|-------------|-------------------|
| Water/Total | <u>\$ 767,698</u> |
|-------------|-------------------|

Component unit activities:

|                               |                  |
|-------------------------------|------------------|
| Eldredge Public Library/Total | <u>\$ 11,951</u> |
|-------------------------------|------------------|

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### **Note 7. Interfund balances and activity**

Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following:

|   | General<br><u>Fund</u> | Stabilization<br><u>Fund</u> | Other<br>Governmental<br><u>Funds</u> | Business-Type<br>Water<br><u>Fund</u> | Business-Type<br>Wood Waste<br><u>Fund</u> |
|---|------------------------|------------------------------|---------------------------------------|---------------------------------------|--|
| Amounts transferred from Waterways Improvement to fund FY 2011 operating budget                   | \$ 292,540             | \$                           | \$ (292,540)                          | \$                                    | \$   |
| Amounts transfer from Land Bank Fund to supplement FY 2011 budget                                 | 898,301                |                              | (898,301)                             |                                       |  |
| Amounts transferred from Wetlands Protection Funds to supplement FY 2011 budget                   | 10,000                 |                              | (10,000)                              |                                       |  |
| Amounts transferred from Cemetery Sale of Lots to fund FY 2011 budget                             | 5,000                  |                              | (5,000)                               |                                       |  |
| Amounts transferred from Railroad Museum fund to supplement FY 2011 budget                        | 3,742                  |                              | (3,742)                               |                                       |  |
| Amounts transferred from Stabilization Fund to fund FY 2011 operating budget                      | 129,877                | (129,877)                    |                                       |                                       |  |
| Amounts transferred from Community Preservation Act to fund FY 2011 operating budget              | 304,875                |                              | (304,875)                             |                                       |  |
| Amounts transferred from General Fund to Pleasant Bay Alliance Management Fund to fund operations | (32,774)               |                              | 32,774                                |                                       |  |
| General Fund funding of Water Fund  | (400,000)              |                              |                                       | 400,000                               |  |
| Amounts transferred from Water Fund to fund indirect costs appropriated in General Fund.          | 333,893                |                              |                                       | 333,893                               |  |
| Totals on budgetary basis   | 1,545,454              | (129,877)                    | (1,481,684)                           | 733,893                               |  |
| Amounts transferred from General Fund to Wood Waste Fund to fund debt service costs               | (205,488)              |                              |                                       |                                       | 205,488                                    |
| Stabilization Fund reported with General Fund for modified accrual basis                          | (129,877)              | 129,877                      |                                       |                                       |  |
| Water Fund overhead reclassified for modified accrual basis                                       | (333,893)              |                              |                                       | (333,893)                             |  |
| Totals on governmental fund basis   | \$ 876,196             | \$                           | \$ (1,481,684)                        | \$ 400,000                            | \$ 205,488                                 |

### **Note 8. Long-term obligations**

#### **Lease obligations**

##### *A. Operating leases*

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2011.



# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

### *B. Capital leases*

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not exceed five years and subject to annual appropriation. The Town does not have any material capital lease obligations outstanding as of June 30, 2011.

### Long-term debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

| <b>Purpose</b>                                       | <b>Balance</b>             |                         |                            | <b>Balance</b>              |                               |
|--|----------------------------|-------------------------|----------------------------|-----------------------------|-------------------------------|
|  | <b><u>July 1, 2010</u></b> | <b><u>Additions</u></b> | <b><u>(Reductions)</u></b> | <b><u>June 30, 2011</u></b> | <b><u>Current Portion</u></b> |
| <b>Governmental activities:</b>                      |                            |                         |                            |                             |                               |
| Sewer-filtration beds, subsidized, due 2017          | \$ 46,057                  | \$                      | \$ (22,705)                | \$ 23,352                   | \$ 23,352                     |
| MWPAT Septic betterment subsidized bond, due 2023    | 119,124                    |                         | (10,615)                   | 108,509                     | 10,829                        |
| Municipal purposes-refunding, 3.98%, due 2021        | 1,514,976                  |                         | (290,010)                  | 1,224,966                   | 291,490                       |
| Municipal purposes-refunding, 2.5%-5.0%, due 2016    | 3,380,000                  |                         | (675,000)                  | 2,705,000                   | 575,000                       |
| Municipal purposes, 3.75%-4.1%, due 2025             | 4,070,000                  |                         | (645,000)                  | 3,425,000                   | 345,000                       |
| Municipal purposes, subsidized, due 2025             | 40,000                     |                         | (2,500)                    | 37,500                      | 2,500                         |
| Municipal purposes - refunding, 3.0%-5.0%, due 2019  | 8,770,000                  |                         | (925,000)                  | 7,845,000                   | 900,000                       |
| Municipal purposes, 3.0% - 5.0%, due 2028            | 12,285,000                 |                         | (880,000)                  | 11,405,000                  | 870,000                       |
| MWPAT Wastewater Treatment Facility, 2.0%, due 2028  |                            | 3,289,537               |                            | 3,289,537                   | 135,114                       |
| Subtotal long-term bonds                             | 30,225,157                 | 3,289,537               | (3,450,830)                | 30,063,864                  | 3,153,285                     |
| Unamortized bond premiums                            | 1,114,129                  |                         | (113,144)                  | 1,000,985                   | 113,144                       |
| Total long-term bonds                                | 31,339,286                 | 3,289,537               | (3,563,974)                | 31,064,849                  | 3,266,429                     |
| Landfill closure and monitoring liability            | 350,000                    |                         | (25,000)                   | 325,000                     | 25,000                        |
| Other post employment benefits                       | 4,829,444                  | 3,222,371               | (1,078,515)                | 6,973,300                   |                               |
| Compensated absences                                 | 1,125,404                  |                         | (71,615)                   | 1,053,789                   |                               |
| Total governmental noncurrent liabilities            | <u>\$ 37,644,134</u>       | <u>\$ 6,511,908</u>     | <u>\$ (4,739,104)</u>      | <u>\$ 39,416,938</u>        | <u>\$ 3,291,429</u>           |
| <b>Business-type activities:</b>                     |                            |                         |                            |                             |                               |
| <b>Water Activities</b>                              |                            |                         |                            |                             |                               |
| Land acquisition, 5.23%, due 2014                    | \$ 50,024                  | \$                      | \$ (9,990)                 | \$ 40,034                   | \$ 8,510                      |
| Municipal purposes-refunding, 3.98%, due 2021        | 1,785,000                  |                         | (355,000)                  | 1,430,000                   | 350,000                       |
| Land acquisition, 3.78%, due 2011                    | 80,000                     |                         | (40,000)                   | 40,000                      | 40,000                        |
| Municipal purposes, 3.75% - 4.1%, due 2025           | 2,525,000                  |                         | (170,000)                  | 2,355,000                   | 165,000                       |
| Municipal purposes, 4.25%, due 2049                  | 487,500                    |                         | (12,500)                   | 475,000                     | 12,500                        |
| Municipal purposes, 3.0% - 5.0%, due 2028            | 585,000                    |                         | (35,000)                   | 550,000                     | 35,000                        |
| Municipal purpose - refunding, 3.0% - 5.0%, due 2019 | 470,000                    |                         | (60,000)                   | 410,000                     | 60,000                        |
| Subtotal long-term bonds payable                     | 5,982,524                  |                         | (682,490)                  | 5,300,034                   | 671,010                       |
| Unamortized bond premiums                            | 41,921                     |                         | (5,240)                    | 36,681                      | 5,240                         |
| Total long-term bonds payable                        | 6,024,445                  |                         | (687,730)                  | 5,336,715                   | 676,250                       |
| Compensated absences                                 | 23,053                     |                         | (693)                      | 22,360                      |                               |
| Total water activities noncurrent liabilities        | <u>\$ 6,047,498</u>        | <u>\$</u>               | <u>\$ (688,423)</u>        | <u>\$ 5,359,075</u>         | <u>\$ 676,250</u>             |

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

|   | <u>Balance</u><br><u>July 1, 2010</u> | <u>Additions</u> | <u>(Reductions)</u>     | <u>Balance</u><br><u>June 30, 2011</u> | <u>Current</u><br><u>Portion</u> |
|---|---------------------------------------|------------------|-------------------------|--|----------------------------------|
| <b>Wood Waste Activities</b>                              |                                       |                  |                         |  |                                  |
| Land acquisition, 3.0% - 5.0%, due 2028                   | \$ 1,475,000                          | \$               | \$ (150,000)            | \$ 1,325,000                           | \$ 150,000                       |
| Total wood waste activities noncurrent liabilities        | <u>1,475,000</u>                      |                  | <u>(150,000)</u>        | <u>1,325,000</u>                       | <u>150,000</u>                   |
| <br>Total business-type activities noncurrent liabilities | <br><u>\$ 7,522,498</u>               | <br><u>\$</u>    | <br><u>\$ (838,423)</u> | <br><u>\$ 6,684,075</u>                | <br><u>\$ 826,250</u>            |
| <br><b>Component unit activities:</b>                     |                                       |                  |                         |  |                                  |
| Compensated absences                                      | \$ 17,979                             | \$ 3,607         | \$                      | \$ 21,586                              | \$                               |
| Total component unit activities noncurrent liabilities    | <u>\$ 17,979</u>                      | <u>\$ 3,607</u>  | <u>\$</u>               | <u>\$ 21,586</u>                       | <u>\$</u>                        |

Outstanding Massachusetts Water Pollution Abatement Trust (MWPAT) bonds are recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that the Commonwealth of Massachusetts will subsidize the interest portion of the debt service via contract payments to MWPAT (and MWPAT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis supplementary information because it is not part of the local budget.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2011, including interest, are as follows:

|             | <u>Governmental Activities</u> |                 |               |  | <u>Business-Type Activities</u> |                 |              |
|-------------|--------------------------------|-----------------|---------------|--|---------------------------------|-----------------|--------------|
| Year Ending |                                |                 |               |  |                                 |                 |              |
| June 30,    | <u>Principal</u>               | <u>Interest</u> | <u>Total</u>  |  | <u>Principal</u>                | <u>Interest</u> | <u>Total</u> |
| 2012        | \$ 3,153,285                   | \$ 1,102,440    | \$ 4,255,725  |  | \$ 821,010                      | \$ 252,975      | \$ 1,073,985 |
| 2013        | 3,297,959                      | 982,854         | 4,280,813     |  | 725,714                         | 224,177         | 949,891      |
| 2014        | 3,275,966                      | 861,044         | 4,137,010     |  | 670,492                         | 197,614         | 868,106      |
| 2015        | 2,896,693                      | 746,755         | 3,643,448     |  | 612,606                         | 172,953         | 785,559      |
| 2016        | 2,794,591                      | 635,201         | 3,429,792     |  | 492,606                         | 150,525         | 643,131      |
| 2017 – 2021 | 9,514,167                      | 1,636,085       | 11,150,252    |  | 1,957,606                       | 461,385         | 2,418,991    |
| 2022 – 2026 | 3,796,671                      | 553,947         | 4,350,618     |  | 987,500                         | 177,073         | 1,164,573    |
| 2027 – 2031 | 1,334,532                      | 58,455          | 1,392,987     |  | 132,500                         | 60,025          | 192,525      |
| 2032 – 2036 |                                |                 |               |  | 62,500                          | 42,500          | 105,000      |
| 2037 – 2041 |                                |                 |               |  | 62,500                          | 29,219          | 91,719       |
| 2042 – 2046 |                                |                 |               |  | 62,500                          | 15,938          | 78,438       |
| 2047 – 2051 |                                |                 |               |  | 37,500                          | 3,188           | 40,688       |
| Totals      | \$ 30,063,864                  | \$ 6,576,781    | \$ 36,640,645 |  | \$ 6,625,034                    | \$ 1,787,572    | \$ 8,412,606 |

The Town is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Department of Revenue. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

**TOWN OF CHATHAM, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2011

| <u>Purpose</u>                         | <u>Year(s)<br/>Authorized</u> | <u>Amount</u>        |
|--|-------------------------------|----------------------|
| Community septic - betterment          | 2002                          | \$ 150,000           |
| Water – standpipe, mains               | 2001                          | 450,000              |
| School renovations & construction      | 1995                          | 12,000               |
| Planning – roads                       | 1995                          | 150,000              |
| Landfill closure                       | 2004                          | 330,000              |
| Community center                       | 2003                          | 15,000               |
| Road betterment                        | 2003                          | 114,000              |
| Land acquisition                       | 2006                          | 910,000              |
| Police department / Annex town offices | 2007                          | 400,000              |
| Road/sidewalk/bike path                | 2007                          | 700,000              |
| Police department / Annex town offices | 2008                          | 1,140,051            |
| Police department / Annex town offices | 2008                          | 276,000              |
| Water main replacement                 | 2010                          | 450,000              |
| Wastewater Treatment Facility          | 2009                          | 21,064,500           |
| Ell Street and Sky Way Improvements    | 2009                          | 220,000              |
| Edson Property                         | 2011                          | 32,500               |
| Edson Property                         | 2011                          | 500,000              |
|  |                               | <u>\$ 26,914,051</u> |

**Note 9. Temporary borrowings**

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the Capital Project Funds.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

Changes in the Town's short-term debt for the year ended June 30, 2011 are as follows:

| <u>Governmental Activities</u>                        |                    |                          |                          |                                 |                      |                        |                                  |
|---|--------------------|--------------------------|--------------------------|---------------------------------|----------------------|------------------------|----------------------------------|
| <u>Type/<br/>Dated Date</u>                           | <u>Purpose</u>     | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Balance<br/>July 1, 2010</u> | <u>Issued</u>        | <u>Retirements</u>     | <u>Balance<br/>June 30, 2011</u> |
| Interim Loan 1/22/2010                                | Municipal Purposes | 0.25%                    | 12/31/2010               | \$ 12,243,500                   | \$                   | \$ (12,243,500)        | \$                               |
| Interim Loan 12/15/2010                               | Municipal Purposes | 0.25%                    | 12/31/2011               |                                 | 7,518,952            |                        | 7,518,952                        |
| ARRA Principal Forgiveness<br>Portion of Interim Note | Municipal Purposes | N/A                      | N/A                      |                                 | 1,435,011            |                        | 1,435,011                        |
| BAN 6/30/2010   | Municipal Purposes | 1.50%                    | 6/30/2011                | 31,650,000                      |                      | (31,650,000)           |                                  |
| BAN 6/30/2011   | Municipal Purposes | 1.50%                    | 6/30/2012                |                                 | 43,500,000           |                        | 43,500,000                       |
| <b>Total Governmental Activities</b>                  |                    |                          |                          | <u>\$ 43,893,500</u>            | <u>\$ 52,453,963</u> | <u>\$ (43,893,500)</u> | <u>\$ 52,453,963</u>             |

  

| <u>Business-Type Activities</u>       |                    |                          |                          |                                 |                     |                       |                                  |
|---------------------------------------|--------------------|--------------------------|--------------------------|---------------------------------|---------------------|-----------------------|----------------------------------|
| <u>Type/<br/>Dated Date</u>           | <u>Purpose</u>     | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Balance<br/>July 1, 2010</u> | <u>Issued</u>       | <u>Retirements</u>    | <u>Balance<br/>June 30, 2011</u> |
| <u>Water Activities:</u>              |                    |                          |                          |                                 |                     |                       |                                  |
| BAN 6/30/2010                         | Municipal Purposes | 1.50%                    | 6/30/2011                | \$ 1,350,000                    | \$                  | \$ (1,350,000)        | \$                               |
| BAN 6/30/2011                         | Municipal Purposes | 1.50%                    | 6/30/2012                |                                 | 1,400,000           |                       | 1,400,000                        |
| <b>Total Business-Type Activities</b> |                    |                          |                          | <u>\$ 1,350,000</u>             | <u>\$ 1,400,000</u> | <u>\$ (1,350,000)</u> | <u>\$ 1,400,000</u>              |

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has deficit fund balances in the Capital Projects Fund. These deficits will be funded through long-term borrowing.

The interim loan above was issued by the MWPAT on January 22, 2010 for the wastewater treatment facility project. This loan is eligible for grant funding received under the American Recovery and Reinvestment Act of 2009 (ARRA). Accordingly, the construction project is subject to special ARRA conditions and requirements for the duration of the project. Upon completion and issuance of approved project completion certificates the loan of \$12,243,500 qualifies for principle forgiveness of \$1,435,011 representing nearly 12% in savings on project costs. Since the project has not been completed the potential principle forgiveness remains as an outstanding liability of the Town as of June 30, 2011.

### Note 10. Employee Benefits

#### A. Retirement Benefits

##### Plan Description

The Town of Chatham, Massachusetts contributes for eligible employees, other than teachers, to the Barnstable County Retirement Association (Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Association. The Association provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Association is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (M.G.L.) and other applicable statutes. Oversight is provided by a five-member board. The Association issues an annual report which is available to the public and may be obtained by contacting the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission (PERAC), One Ashburton Place, Boston, MA 02108. Teachers are covered by the Commonwealth of Massachusetts, Teachers Retirement System (TRS), to which the Town does not contribute.

##### Funding Policy

## TOWN OF CHATHAM, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2011

#### Funding Policy

Plan members are required to contribute 5-11% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The Town's current year contribution is \$1,456,864, which was equal to its required contribution. The contribution requirements of plan members and the Town are established and may be amended by M.G.L. The Town's contributions to the Association for the years ending June 30, 2010 and 2009 were \$1,508,841 and \$1,448,316, respectively, which were equal to the required contributions for each year.

As noted above, the Town does not contribute to TRS. Contributions to the TRS are made by the Commonwealth of Massachusetts on behalf of the Town. Accounting Principles Generally Accepted in the United States require the Town to record such "on behalf payments" as revenue and expenditures in the financial statements. Accordingly, \$2,025,577 of pension benefits paid by the Commonwealth of Massachusetts on behalf of the Town is included in the accompanying Statement of Activities as Employee Benefits operating contributions and expense and in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance as general fund intergovernmental revenue and employee benefits expenditures. These on-behalf payments are not part of the local budget and therefore, are not included in the accompanying budgetary basis statements.

#### **B. Compensated Absences**

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Assets for both governmental and business-type activities.

#### **C. Other Post Employment Benefits**

In addition to the pension benefits described above, the Town provides postretirement healthcare benefits to all employees who retire from the Town on or after attaining age 55 with 10 or more years of service. Currently, the Town pays 50% of the health, dental, life and vision insurance premiums for approximately 148 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2011, those costs approximated \$783,000.

#### **Annual OPEB Cost and Net OPEB Obligation**

The Town's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation.

# TOWN OF CHATHAM, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2011

|  |                     |
|--|---------------------|
| Annual required contribution               | \$ 3,157,527        |
| Interest on net OPEB obligation            |                     |
| Adjustment to annual required contribution | 64,844              |
| Annual OPEB cost (expenses)                | 3,222,371           |
| Contributions made                         | (1,078,515)         |
| Increase in net OPEB obligation            | 2,143,856           |
| Net OPEB obligation, beginning year        | 4,829,444           |
| Net OPEB obligation, end of year           | <u>\$ 6,973,300</u> |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Percent of Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|----------------------|---------------------|---|------------------------|
| 6/30/2011            | \$ 3,222,371        | 33.47%  | \$ 2,143,856           |
| 6/30/2010            | \$ 3,094,256        | 22.35%  | \$ 2,402,694           |
| 6/30/2009            | \$ 3,094,256        | 21.57%  | \$ 2,426,750           |

### Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using a thirty year open amortization basis increasing at 4.5%.

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b)-(a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b)-(a)]/c] |
|--------------------------------|--|---|--------------------------------------|----------------------------|---------------------------|--|
| 6/30/2010                      | \$                                     | \$ 43,726,097                                     | \$ 43,726,097                        | 0.00%                      | \$ 18,055,803             | 242.2%   |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**TOWN OF CHATHAM, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2011

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 5.0% per annum

Medical/Drug Cost Trend Rates: 10.0% decreasing by 0.75% for 6 years and by 0.50% for 1 year to an ultimate level of 5.00% per year.

Dental Cost Trend Rate: 5.0% per annum

General Inflation Assumption: 4.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.5% over 30 years

Remaining Amortization Period: 28 years at June 30, 2010

**Note 11. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. The landfill has stopped accepting solid waste and pursuant to a Massachusetts Department of Environmental Protection consent order, the Town has placed a final cover on its landfill.

As of June 30, 2011, \$325,000 has been reported on the Town's statement of net assets as an estimated remaining liability for post-closure monitoring costs of the landfill. Actual costs may change due to the finalizing of regulations with regulatory authorities, changing technology, and inflation.

**Note 12. Risk Management**

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Town carries commercial insurance for all risk except health insurance.

As discussed in Note 1, the Town participates in the Cape Cod Municipal Health Group (the Group), a municipal joint-purchase group consisting of 52 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide employee insurance benefits. Employees and the Town both contribute to the Group based upon a 70% (Town) and 30% (Employee) primary care premium formula. The Town budgets, annually, in the general fund for its estimated share of contributions. At June 30, 2011, the Group had net assets of \$23,701,791 (unaudited).

**Note 13. Commitments and Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

**TOWN OF CHATHAM, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2011

**Note 14. Restatement of beginning fund balance**

The Town was required to implement the provisions of GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, certain opening fund balances were restated to include the Town's Stabilization fund. Under the new reporting model, the Town's stabilization fund is reported with the General fund since the fund is designed to maintain funds set aside by Town Meeting votes, and is not funded by a specific revenue source. The restatement is as follows:

|  | <b>General<br/>Fund</b> | <b>Other<br/>Governmental Funds</b> |
|--|-------------------------|-------------------------------------|
| Fund balance, 6/30/2010                | \$ 5,064,637            | \$ 7,618,420                        |
| Reclassification of stabilization fund | <u>1,749,797</u>        | <u>( 1,749,797)</u>                 |
| Fund balance, restated, 7/1/2010       | <u>\$ 6,814,434</u>     | <u>\$ 5,868,623</u>                 |

**Note 15. Implementation of New GASB Pronouncements**

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the Town believes are applicable to its financial statements.

Current pronouncements

The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was required to be implemented in fiscal year 2011. The Town has implemented the provisions of this pronouncement, reporting fund balances under the new fund balance classifications.

The GASB issued Statement #59, *Financial Instruments Omnibus*, which was required to be implemented in fiscal year 2011. The standards in this statement currently do not apply to the Town and therefore did not impact the Town's financial statements.

Future pronouncements

The GASB issued Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is required to be implemented in fiscal year 2012. The Town expects that this pronouncement will require additional disclosure and impact the basic financial statements.

The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. This pronouncement's objective is to improve financial reporting by addressing issues related to service concession arrangements (SCA), which are types of public-private or public-public partnerships through the use of infrastructure or another public asset in exchange for significant consideration. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented in fiscal year 2013. This pronouncement modifies requirements for the inclusion of component units in the financial reporting entity. The Town doesn't believe this pronouncement will impact the Town's financial statements.



TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. This pronouncement will continue the codification of all generally accepted accounting principles for state and local governments into a single source.

The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. This pronouncement will standardize the financial reporting relating to the elements of a government's consumption of net assets, and an acquisition of net assets that is applicable to a future reporting period. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No.53*, which is required to be implemented in fiscal year 2012. This pronouncement addresses financial reporting issues involving hedge accounting surrounding derivative instruments. The Town doesn't believe this pronouncement will impact the Town's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# TOWN OF CHATHAM, MASSACHUSETTS

## Required Supplementary Information

June 30, 2011

### Funding Status and Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The unfunded actuarial accrued liability was determined using thirty year open amortization basis increasing at 4.5%.

The Town was required to implement the provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for the year ended June 30, 2009. Accordingly, valuations for preceding periods were not required.

#### Schedule of Funding Progress

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b)-(a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b)-(a)]/c] |
|--------------------------------|--|---|--------------------------------------|----------------------------|---------------------------|--|
| 6/30/2010                      | \$                                     | \$ 43,726,097                                     | \$ 43,726,097                        | 0.00%                      | \$ 18,055,803             | 242.2%   |
| 6/30/2008                      | \$                                     | \$ 40,775,669                                     | \$ 40,775,669                        | 0.00%                      | \$ 17,166,681             | 237.5%   |
| 6/30/2006                      | N/A                                    | N/A   | N/A                                  | N/A                        | N/A                       | N/A  |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

#### Schedule of Employer Contributions

| Fiscal Year<br>Ended | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
|----------------------|------------------------------------|---------------------------|
| 6/30/2011            | \$ 3,222,371                       | 33.5%                     |
| 6/30/2010            | \$ 3,094,256                       | 22.3%                     |
| 6/30/2009            | \$ 3,094,256                       | 21.6%                     |

### Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**TOWN OF CHATHAM, MASSACHUSETTS**  
Required Supplementary Information  
June 30, 2011

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 5.0% per annum

Medical/Drug Cost Trend Rates: 10.0% decreasing by 0.75% for 6 years and by 0.50% for 1 year to an ultimate level of 5.00% per year.

Dental Cost Trend Rate: 5.0% per annum

General Inflation Assumption: 4.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.5% over 30 years

Remaining Amortization Period: 28 years at June 30, 2010

**TOWN OF CHATHAM, MASSACHUSETTS**  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis  
General Fund - Budget and Actual  
For the Year Ended June 30, 2011

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| <b>Revenues</b>  |                            |                         |                     |   |
| Property taxes and payments in lieu  | \$ 24,820,494              | \$ 24,820,494           | \$ 24,688,714       | \$ (131,780)  |
| Excise taxes   | 1,990,000                  | 1,990,000               | 2,137,459           | 147,459   |
| Licenses and permits   | 770,000                    | 770,000                 | 783,904             | 13,904  |
| Penalties and interest   | 110,000                    | 110,000                 | 125,914             | 15,914  |
| Investment interest  | 70,000                     | 70,000                  | 50,243              | (19,757)  |
| Charges for services   | 2,242,000                  | 2,242,000               | 2,210,200           | (31,800)  |
| Special assessments  | 120,000                    | 120,000                 | 180,499             | 60,499  |
| Fees and fines   | 50,000                     | 50,000                  | 55,912              | 5,912   |
| Departmental and other   | 486,137                    | 486,137                 | 760,167             | 274,030   |
| Intergovernmental  | 1,844,671                  | 1,844,671               | 1,901,242           | 56,571  |
| Total revenues   | <u>32,503,302</u>          | <u>32,503,302</u>       | <u>32,894,254</u>   | <u>390,952</u>  |
| <b>Expenditures</b>  |                            |                         |                     |   |
| General government   | 4,285,138                  | 2,703,817               | 2,641,742           | 62,075  |
| Public safety  | 4,977,230                  | 4,986,559               | 4,984,251           | 2,308   |
| Education  | 10,207,667                 | 10,086,641              | 9,977,973           | 108,668   |
| Public works   | 5,211,854                  | 4,400,065               | 4,268,029           | 132,036   |
| Community planning and development   | 817,208                    | 762,231                 | 757,969             | 4,262   |
| Health & human services  | 901,333                    | 719,184                 | 666,039             | 53,145  |
| Culture and recreation   | 953,415                    | 954,849                 | 933,687             | 21,162  |
| Coastal resources  | 1,180,621                  | 908,041                 | 894,940             | 13,101  |
| Employee benefits  | 3,882,890                  | 3,847,290               | 3,642,896           | 204,394   |
| State and county assessments   | 988,795                    | 988,795                 | 991,296             | (2,501)   |
| Debt service   | 5,020,196                  | 5,020,196               | 5,216,532           | (196,336)   |
| Total expenditures   | <u>38,426,347</u>          | <u>35,377,668</u>       | <u>34,975,354</u>   | <u>402,314</u>  |
| Revenues over (under) expenditures   | (5,923,045)                | (2,874,366)             | (2,081,100)         | 793,266   |
| <b>Other financing sources (uses)</b>  |                            |                         |                     |   |
| Transfers in from other funds  | 2,790,969                  | 1,977,486               | 1,978,228           | 742   |
| Transfers out to other funds   | (432,774)                  | (432,774)               | (432,774)           |   |
| Total other financing sources  | <u>2,358,195</u>           | <u>1,544,712</u>        | <u>1,545,454</u>    | <u>742</u>  |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses | (3,564,850)                | (1,329,654)             | (535,646)           | <u>\$ 794,008</u>   |
| Fund balance, beginning of year  |                            |                         | 5,961,990           |   |
| Fund balances, end of year   |                            |                         | <u>\$ 5,426,344</u> |   |
| <b>Other budget items</b>  |                            |                         |                     |   |
| Free cash appropriations   | 1,051,333                  | 1,051,333               |                     |   |
| Carryover encumbrances   | <u>2,746,672</u>           | <u>511,476</u>          |                     |   |
| Total other budget items   | <u>3,564,850</u>           | <u>1,329,654</u>        |                     |   |
| Net budget   | <u>\$</u>                  | <u>\$</u>               |                     |   |

The accompanying notes are an integral part of these financial statements.

# TOWN OF CHATHAM, MASSACHUSETTS

## Required Supplementary Information

June 30, 2011

### Budgetary basis of accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column of the Statements of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis, are presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2011, is presented below:

|   | <u>Revenues</u>      | <u>Expenditures</u>  | <u>Other Financing<br/>Sources (Uses), Net</u> |
|---|----------------------|----------------------|--|
| As reported on a budgetary basis                                    | \$ 32,894,254        | \$ 34,975,354        | \$ 1,545,454                                   |
| Adjustment of property tax revenues to<br>modified accrual basis    | 47,980               |                      |  |
| State funded teacher's pension                                      | 2,025,577            | 2,025,577            |  |
| MWPAT subsidy   | 9,474                | 9,474                |  |
| Expenditure timing differences                                      |                      | 2,089                |  |
| Stabilization fund, net activity                                    | 56,905               |                      | (129,877)                                      |
| Adjustment for waste wood reclamation<br>fund debt service payments |                      | (205,488)            | (205,488)                                      |
| Adjustment for budgeted allocation<br>of water fund overhead costs  |                      | (333,893)            | (333,893)                                      |
| As reported on a GAAP basis   | <u>\$ 35,034,190</u> | <u>\$ 36,473,113</u> | <u>\$ 876,196</u>                              |